



CITY OF LODI COUNCIL COMMUNICATION

AGENDA TITLE: Adopt Resolution Authorizing the City Manager and Electric Utility Director to Issue Request for Bids, Determine the Best Bid and Execute a Contract for a **25 Megawatt Baseload** Power Purchase for the Period of **July 2010** through March **2012** at a Cost Not to Exceed **\$79** per megawatt-hour (EUD)

MEETING DATE: August **6, 2008**

PREPARED BY Electric Utility Director

RECOMMENDED ACTION: Adopt a resolution authorizing the City Manager and Electric Utility Director to issue a request for bids, determine the best bid and execute a contract for a 25 megawatt baseload power purchase for the period of July 2010 through March 2012 at a cost not to exceed \$79 per megawatt-hour (MWH).

BACKGROUND INFORMATION: Lodi's Electric Utility Department (EUD) must procure wholesale energy in order to economically meet its customer load obligations.

Presently, EUD has a 25 megawatt (MW) baseload power purchase contract with ConocoPhillips that began on July 1, 2008 and expires June 30, 2010. The price for this energy is fixed at \$68/MWH for the transaction period. At the time it was consummated, this purchase was intended to bridge the period until commercial operation of the Lodi Energy Center (LEC). The current projected LEC in-service date is now April 2012. As a result, EUD will have a significant "open position" from July 2010 through March 2012.


In FY11, EUD's projected "open position" is approximately 340 gigawatt-hours (GWH) or about **65%** of EUD's total customer load obligation. The utility's open position in FY12 is similar until construction of the Lodi Energy Center is complete.

Through material previously provided to the City Council, EUD has a baseload energy need going forward of about 30 MW. EUD's strategy for filling a significant part of its "baseload energy need in the FY10 and beyond timeframe was through participation in the Lodi Energy Center at the 30 MW level. Due to delays in obtaining full participation in the Phase 2 development work of LEC, however, the current projected LEC in-service date is April 2012.

The price for longer-term power has recently softened on the wholesale market. Within the past week, EUD received an indicative price (non binding quote) of about \$75/MWH for a 25 MW block of baseload energy for the July 2010 through March 2012 period. This is 15 percent less than recent price projections and less than the \$83/MWH included for power purchases under base electric rates. (Note that forward electric prices can change dramatically in a matter of days.)

As a result, Staff recommends that EUD seek to procure a 25 MW block of power "around the clock for the July 2010 through March 2012 timeframe (21 months). A 25 MW baseload energy purchase will reduce EUD's projected 65% open position for this period to a level of about 25%. Such an acquisition at

APPROVED:

 ng, City Manager

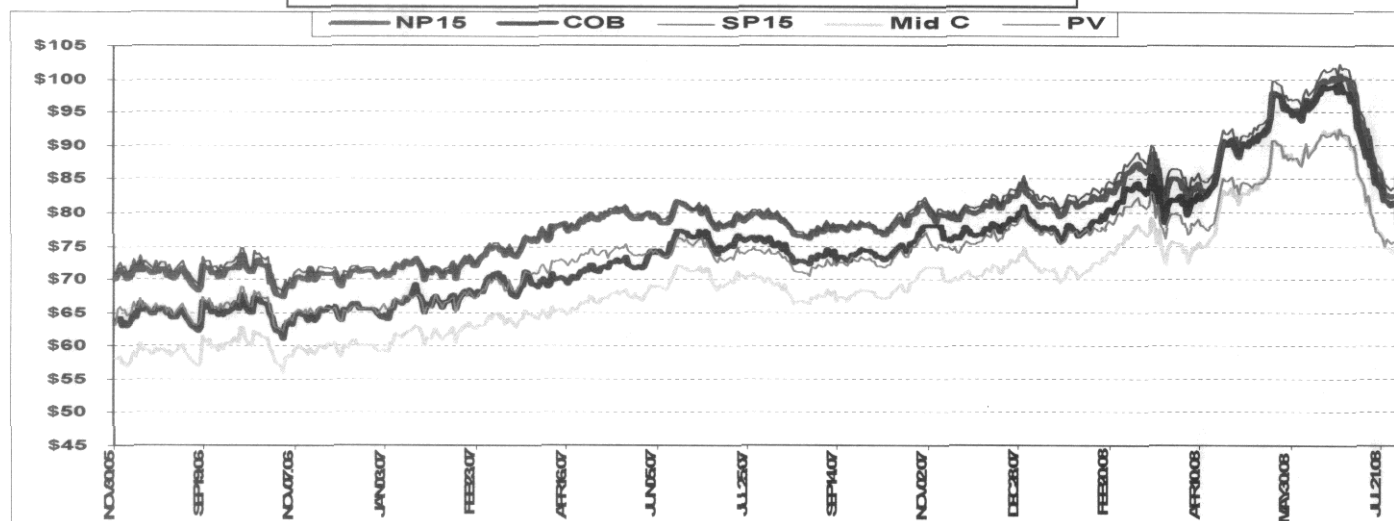
Adopt resolution authorizing the City Manager and Electric Utility Director to issue a request for bids, determine the best bid and execute a contract for a 25 megawatt baseload power purchase for the period of July 2010 through March 2012 at a cost not to exceed \$79 per megawatt-hour (EUD)

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favorable pricing terms will significantly reduce EUD's exposure to adverse price risk associated with market volatility. This type of stabilizing transaction is also expected to be received favorably by the financial ratings community.

Calendar Year 2011 Forward Prices by Hub



As a means of visually showing the trend of future electric prices in the hedge market, the above graph shows prices for power (Lodi purchase point is NP15 which is depicted by the red line) for calendar year 2011.

The proposed 25 MW block of power would be acquired on a bilateral basis. That is, EUD would contract directly with a seller. The Northern California Power Agency (NCPA) will assist EUD with this procurement by issuing the request for bids, advising on bid evaluation and providing contract support/advice. Presently, Lodi and NCPA have "enabling" agreements with a number of qualified energy suppliers in the California market. It would be EUD's objective to enter into a contract with the successful bidder in a form similar to a contract that either Lodi or NCPA has with such bidder. Due to the short period in which a sales bid is valid in today's electric wholesale market, authorization is requested for the City Manager to execute necessary sales documents for a transaction with unanimous concurrence of the City's Risk Oversight Committee (ROC). In addition to the City Manager, ROC Members include the Deputy City Manager, City Attorney and Electric Utility Director.

For information, if the initial request for bids does not produce a satisfactory offer for any reason (i.e. price too high, credit/collateral requirements unsatisfactory, inability to consummate acceptable contract, etc.), it is expected that EUD could go to the market on a number of occasions prior to November 30, 2008. If an acceptable baseload purchase arrangement is not completed by this date, the authorization under the proposed City Council resolution would expire.

FISCAL IMPACT: At \$79/MWH, the average monthly cost of procuring 25 MW of baseload energy is about \$1.37 million per month. (For information, EUD's average monthly total cost of power is about \$3.8 million.)

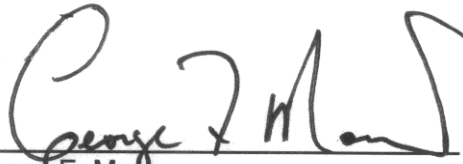
FUNDING: Costs associated with procurement under this authorization will not be incurred until energy is delivered in fiscal years 2011 and 2012. The City has not adopted a

Adopt resolution authorizing the City Manager and Electric Utility Director to issue a request for bids, determine the best bid and execute a contract for a 25 megawatt baseload power purchase for the period of July 2010 through March 2012 at a cost not to exceed 579 per megawatt-hour (EUD)

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budget for these fiscal years, and as a result, funding has not yet been established. Funding for this authorization will be supported by retail electricity sales revenue, once the applicable fiscal year budgets are established and approved by the City Council.

A handwritten signature in black ink, appearing to read "George F. Morrow". The signature is written in a cursive, flowing style with a large initial "G" and "M".

George F. Morrow
Electric Utility Director

RESOLUTION NO. 2008-155

A RESOLUTION OF THE LODI CITY COUNCIL AUTHORIZING
THE CITY MANAGER AND ELECTRIC UTILITY DIRECTOR TO
ISSUE REQUEST FOR BIDS, DETERMINE THE BEST BID, AND
EXECUTE A CONTRACT FOR A 25 MEGAWATT BASELOAD
POWER PURCHASE FOR THE PERIOD OF JULY 2010
THROUGH MARCH 2012 AT A COST NOT TO
EXCEED \$79 PER MEGAWATT HOUR

WHEREAS, Lodi presently has a 25 megawatt baseload power purchase from ConocoPhillips that expires on June 30, 2010; and

WHEREAS, due to a deferral in the projected in-service date of the Lodi Energy Center until April 2012, Lodi has a significant "open position" (approximately 65%) from July 2010 through March 2012; and

WHEREAS, recent softening of wholesale power prices in 2010 and beyond make it practical to acquire baseload power to close a significant portion of such open position.

NOW, THEREFORE, BE IT RESOLVED that the Lodi City Council hereby authorizes the City Manager and Electric Utility Director to issue one or more request for bids, determine the best bid, and execute a contract for a 25 megawatt baseload power purchase for the period of July 2010 through March 2012 at a cost not to exceed \$79 per megawatt hour (subject to the unanimous consent of the Lodi Electric Risk Oversight Committee) and authorizes the Electric Utility Director or his designee to administer any such contract.

Dated: August 6, 2008

I hereby certify that Resolution No. 2008-155 was passed and adopted by the Lodi City Council of the City of Lodi in a regular meeting held August 6, 2008, by the following vote:

AYES: COUNCIL MEMBERS – Hansen, Hitchcock, Johnson, Katzakian, and Mayor Mounce

NOES: COUNCIL MEMBERS – None

ABSENT: COUNCIL MEMBERS – None

ABSTAIN: COUNCIL MEMBERS – None


RANDI JOHL
City Clerk